

CCP 10th Annual Conference, 11 June 2014
Session 5: Competition and the demand side

Calls to non-geographic numbers – changing the regulatory regime in a problem market

Katie Curry and Geoffrey Myers, Ofcom

Overview

- Non-geographic calls – current regime
- Consumer detriment
- Changing the regulatory regime
- Conclusions

Geographic and non-geographic calls (NGCs)

01 / 02

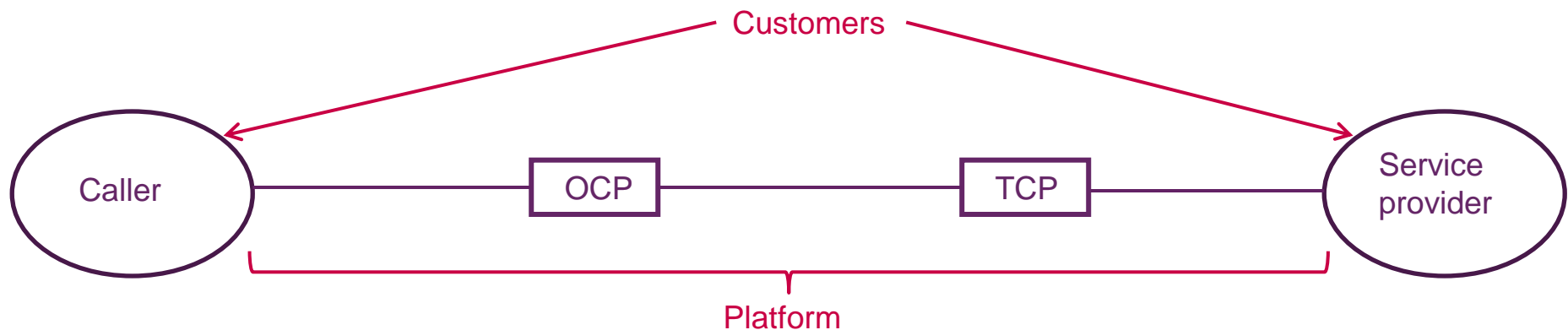
08 / 09

- Geographic calls are calls to a fixed geographic location: 01 or 02
 - The phone number has an area code, eg 020 for London, 01603 for Norwich
- Other types of voice call are to mobile phones (07) and “non-geographic” calls (NGCs)
- NGCs are calls to numbers that are not associated with a fixed geographic location. They are used to access a wide variety of services:
 - Helplines, pre and post sales enquiry lines, public sector services: 080, 084, 087
 - Premium rate services - information and entertainment services, eg horoscopes: 09
- There were approximately 30bn call minutes to NGC numbers in 2009, accounting for 12% of all voice traffic and generating revenues of nearly £1.9bn.
 - Although large, the NGC market is declining: call volumes fell by 14% between 2008 and 2009 and have continued to fall since at a similar rate.
- Most calls are on Freephone (080) and lower cost 08 numbers (0843/4, 0845)
- Only 10% of NGCs were made from mobiles in 2009 - compared to a figure of 45% for all voice calls in the same year

Non-geographic calls: market participants

Two-sided market

- Non-geographic calls are an example of a two-sided market, in which two types of customers are brought together by a 'platform'
- The two types of customers are the caller and the service provider (SP)
- The platform is the telecoms network consisting of (at least) two interconnected networks
 - The caller is the customer of the Originating Communications Provider (OCP)
 - The SP is the customer of the Terminating Communications Provider (TCP)



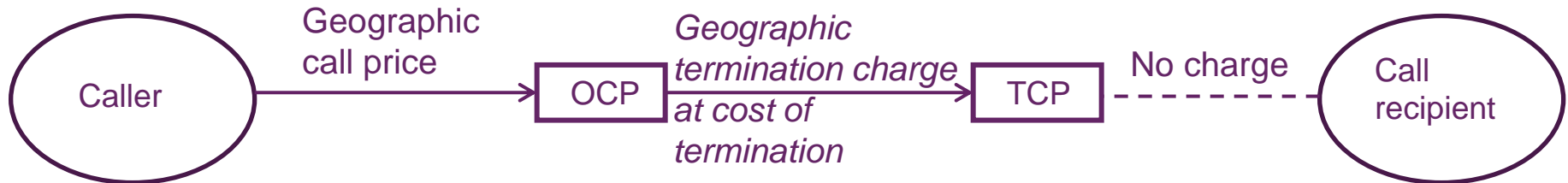
Charges in italics are set by regulation, although non-geographic termination charge and origination charge are only (directly) regulated where BT is the OCP



Geographic and non-geographic calls: micro-payments

Payment flows and wholesale regulation

Geographic call to 01 or 02 (or 03*)



Non-geographic call to 084, 087, 09 or 118: micro-payments



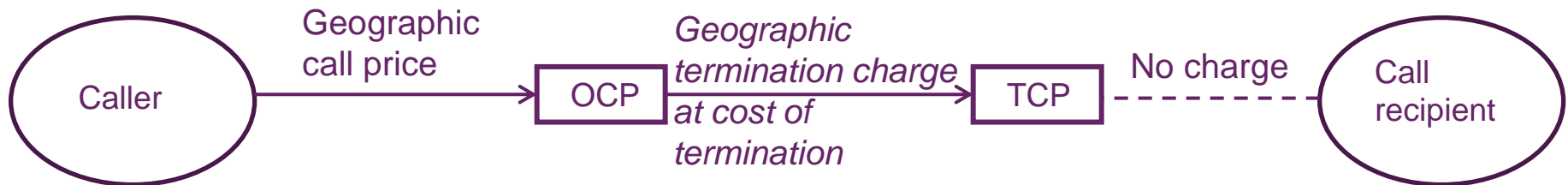
* 03 is a non-geographic number range but follows the call prices and payment flow of geographic calls (ie OCPs are required to set call prices in the same way as for their geographic calls; and the termination charge is regulated at the cost of termination)

Charges in italics are set by regulation, although non-geographic termination charge and origination charge are only (directly) regulated where BT is the OCP

Geographic and non-geographic calls: Freephone

Payment flows and wholesale regulation

Geographic call to 01 or 02 (or 03*)



Non-geographic call to 080 or 116: Freephone



* 03 is a non-geographic number range but follows the call prices and payment flow of geographic calls (ie OCPs are required to set call prices in the same way as for their geographic calls; and the termination charge is regulated at the cost of termination)

Potential benefits of NGCs

SPs and consumers

Non-geographic calls offer a number of benefits to SPs

- Callers can access their service on a single phone number at a broadly consistent price regardless of the caller's location or the location of the SP's call centre(s)
- The SP can apply particular routing rules, eg to divert calls to one call centre at one time of day and to a second at another time of day
- The SP can change the payment flow compared to a geographic call, eg to receive some revenue from a call or to offer their callers free calls (or attempt to do so)

They also offer potential benefits to consumers

- Freephone (080) allows SPs to pick up the cost of the call and offer a zero price to their callers
- Revenue share (084, 087) and premium rate services (09) provide micro-payment mechanism that facilitates provision of services to consumers
- Micro-payments can also facilitate innovation by SPs

Overview

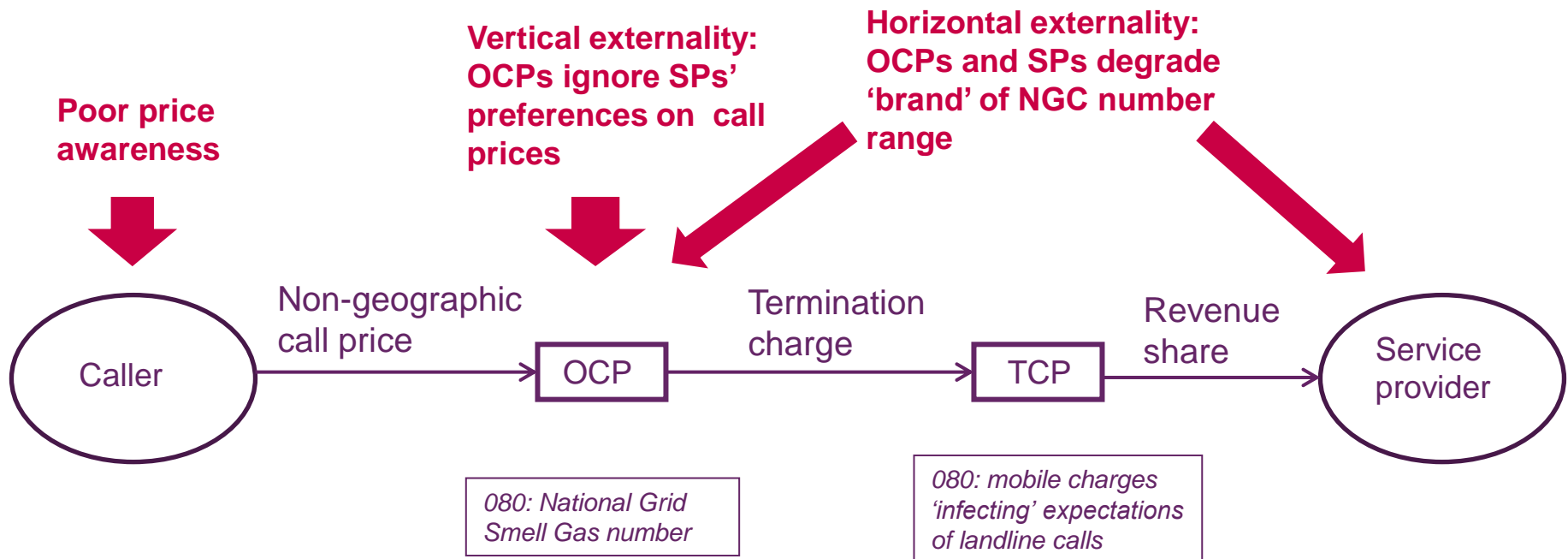
- Non-geographic calls – current regime
- Consumer detriment
- Changing the regulatory regime
- Conclusions

Market failures

Main concern was the operation of the retail level

We found that consumers were suffering a welfare loss because of three interrelated market failures:

- Lack of consumer price awareness
- The vertical externality
- The horizontal externality



Example of a TV advert for a non-geographic call

Current call cost advice

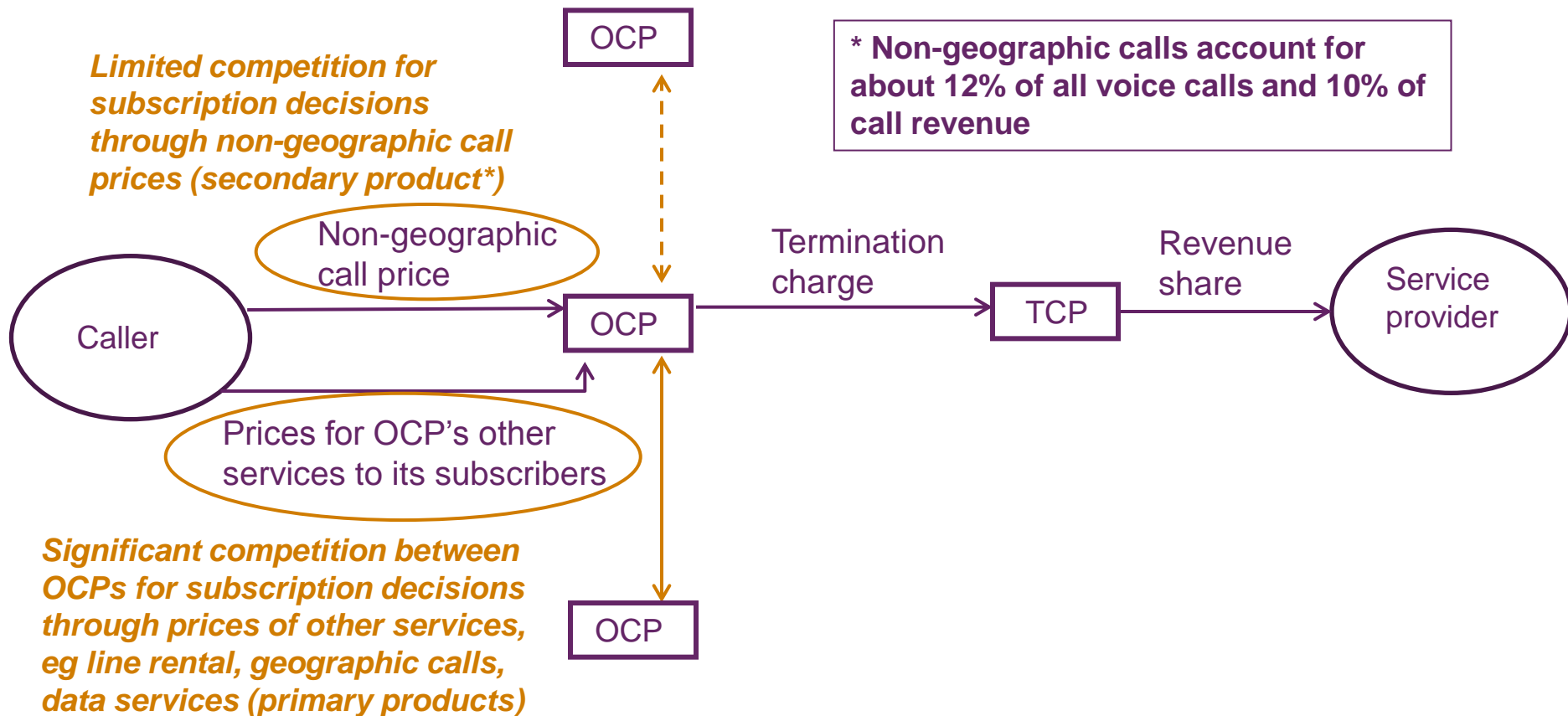
A woman with dark hair pulled back, wearing a blue top, is smiling and holding a microphone. The background is a dark purple with bokeh light effects. A dark blue banner at the bottom contains white text, which is circled in red.

Calls to this number cost £1 per minute from a BT landline. Calls from other networks may vary and calls from mobiles may cost considerably more.

Consumer detriments

- We identified 5 sources of detriment resulting from the market failures
- **Reduction in demand:** callers overestimate prices, suspicious of NGCs
 - eg consumer campaigns: “Say no to 0870”
- OCPs set prices too high to callers - with effect on callers offset by waterbed on prices of other services, leading to **distorted set of relative prices** between geographic calls and NGCs
- SPs’ **incentive to invest and innovate adversely affected**, leading to reduced availability and quality of NGC services
 - eg City of Westminster introduced a pay-by-phone system taking payment directly from debit/credit cards rather than using a non-geographic number
 - eg 118 SPs have been unable to provide services funded by advertising revenue because they cannot guarantee call would be zero-rated
- **Loss of access to socially important services** for vulnerable consumers
- **Limited competition** between SPs for callers and between OCPs for callers

Limited competition in non-geographic call price for consumer's choice of network (subscription decision)



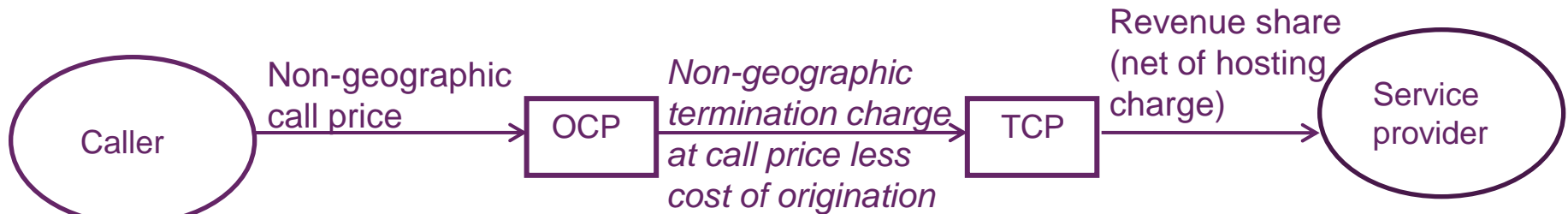
Overview

- Non-geographic calls – current regime
- Consumer detriment
- Changing the regulatory regime
- Conclusions

Tariff unbundling

Old and new regimes

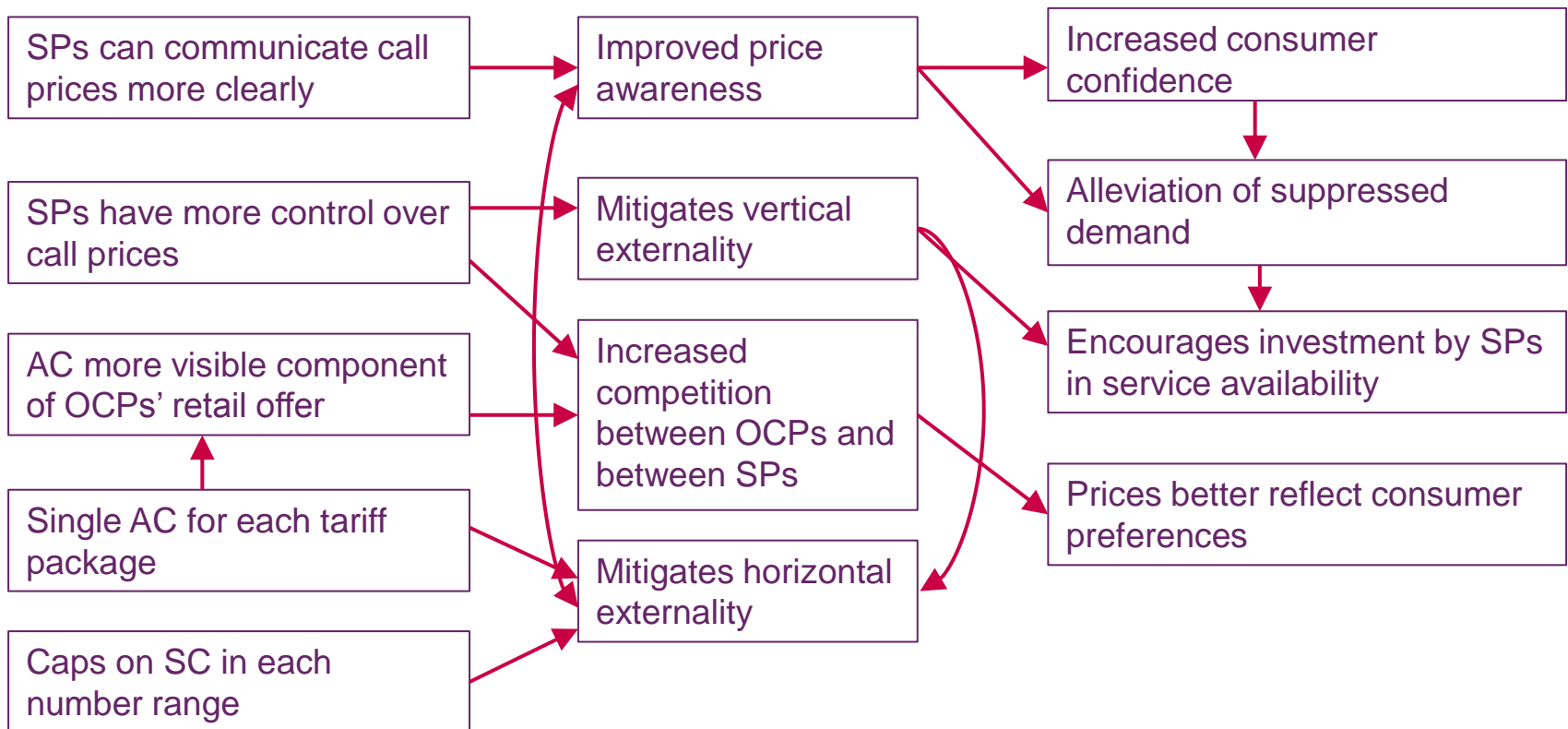
Non-geographic call to 084/087, 09 or 118 – old regime



Non-geographic call to 084/087, 09 or 118 – new regime



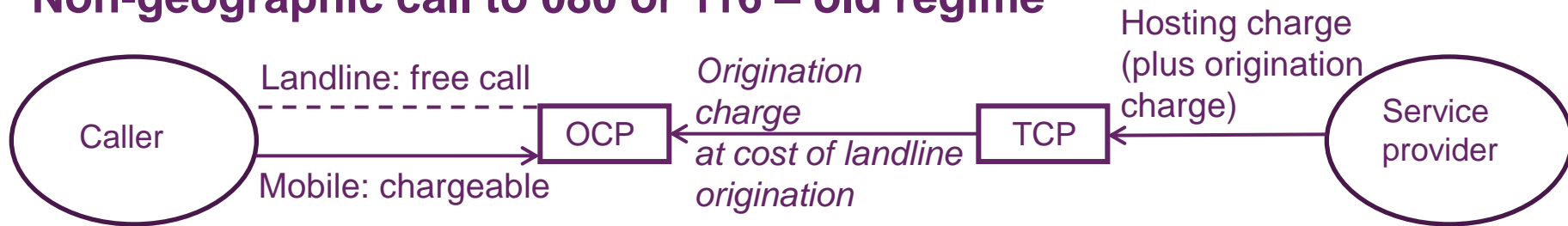
Benefits of the unbundled tariff



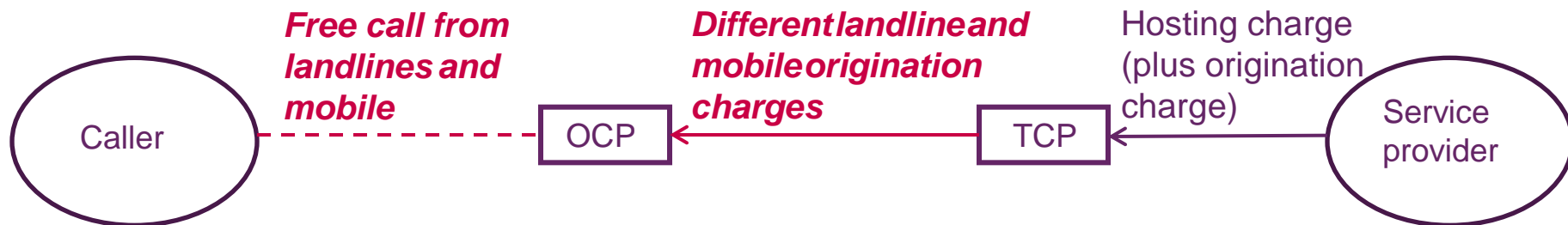
Free-to-caller number ranges

Old and new regimes

Non-geographic call to 080 or 116 – old regime



Non-geographic call to 080 or 116 – new regime



All OCPs are required to set zero call prices











TCPs are required to purchase origination from OCPs at fair and reasonable charges - Ofcom has published guidance of 0.4-0.5ppm for landlines and 1.5-2.4ppm for mobile (but mobile origination charge is contentious and has already led to disputes that Ofcom is currently in process of resolving)

Freephone

Benefits to consumers

- Improve price awareness by enabling OCPs and SPs to advertise a clear message that these numbers are always free
- Address the vertical externality by making a genuinely free-to-caller number range
- Address the horizontal externality as 080 has clear identity as free-to-caller (and OCPs are required to offer free calls)
- Encourage consumer confidence and demand for 080
- Ensure vulnerable consumers are not deterred from accessing socially important services on the range
- Improve confidence in non-geographic numbers in general (given high-profile nature of 080)

More intuitive new Numbering Guide

		Free 080
For these numbers, you only pay your phone company for the cost of the call.		
		UK numbers 01, 02 03 03 numbers are UK wide numbers that are charged in the same way as 01 and 02 numbers.
		Mobile 07
		International 00
For these numbers, the total cost is made up of an access charge that goes to your phone company PLUS a charge that goes to the organisation receiving the call.		
		08 Numbers The charge for these numbers will be no more than 7p per minute for 084 numbers and 13p per minute for 087 numbers PLUS your phone company's standard access charge.
		09 Premium Rate numbers The charge for these numbers will be no more than £1.45 per minute PLUS your phone company's standard access charge.
		Directory Enquiries 118



Predictably increasing prices and
clear demarcations

More consistent consumer information

A woman with dark hair pulled back, wearing a blue top, is singing into a black microphone. The background is a soft-focus purple bokeh.

 **0909 879 1234**
Your vote will cost 90p per minute plus your phone company's access charge

Overview

- Non-geographic calls – current regime
- Consumer detriment
- Changing the regulatory regime
- Conclusions

Concluding thoughts

Development over time

- Regulation of NGCs developed in piecemeal fashion over period of years
- Regulatory decision in 1996 to set termination charges (for BT-originated calls) at call price less cost of origination spawned use of calls as micro-payment mechanism
 - Significant successes of micro-payment mechanism in terms of services to consumers and innovation (eg it made possible pay-as-you-go internet access in late 1990s)
 - But availability of rents also had downsides, such as use of non-geographic numbers for revenue raising even for public services (eg doctors), and in some cases fraud
- Increasing disparity in prices of different operators and complexity in regime (eg different regulation of 0870 and 0871) meant that market failures worsened over time
- Also, fundamental conflict of interests of OCPs and TCPs led to steady stream of contentious wholesale disputes

Concluding thoughts

Strategic review

- NGCs had become a problem market that was not working well for consumers
- A root-and-branch review was needed, recognising that Ofcom's previous piecemeal approach was not enough (or was even part of the problem)
- Analytical process with some similarities to market investigation by CMA
 - But also very specific and detailed remedies using ex ante sectoral powers
- Range of evidence used to inform the analysis
 - Behavioural economics experimental research to test tariff unbundling
 - Consumer surveys
 - Survey of service providers
 - Industry working groups
 - Responses to consultation from consumer groups, service providers and telecoms operators
- We found there was limited competition in the market for NGCs- but this was more a symptom than the underlying cause of problems
- Fundamental nature of changes will affect most consumers and businesses in the UK
 - Players throughout the value chain will need time to prepare, eg operators to modify billing systems, SPs to decide whether to migrate between number ranges
 - New regime will come into effect in Summer 2015